

Presentation to the
2005 Iowa Public Retirement Systems Committee regarding
**Municipal Fire and
Police Retirement System**
(Chapter 411)



November 3, 2005

Iowa League of Cities

2006 Legislative Priorities



- *Serve Iowa Citizens*
(Priority: Property Tax Reform)
- *Grow Iowa Communities*
(Priority: Economic Development)
- *Protect Iowa Taxpayers*
(Priority: Pensions).
- [http://www.iowaleague.org/Legislative/
PrioritySummary.aspx](http://www.iowaleague.org/Legislative/PrioritySummary.aspx)

Protect Iowa Taxpayers **(Priority: Pensions)**



- **Support legislation that strengthens actuarial soundness and fairly allocates the contribution rates among participating parties while opposing any expansion of benefits under the Iowa Public Employee Retirement System (IPERS) or the Municipal Fire and Police Retirement System of Iowa (MFPRSI).**

Protect Iowa Taxpayers

(Priority: Pensions)



- **Even-numbered years are traditionally considered “pension years”**
- **An increase in the IPERS contribution rate is needed for system to remain financially sound**
- **Legislators appear to remain divided over the appropriate distribution among employers and employees.**
- **Currently, employers pay 60% and employees pay 40% of the contribution.**

Protect Iowa Taxpayers **(Priority: Pensions)**



- **The League advocates contribution rate resolution.**
- **If rate increase is deferred yet again, there is potential for detrimental effects to the system.**
- **Employees in protective occupations have enhanced benefits with higher employee and employer rates. The League has expressed concern over broadening the classification.**

Protect Iowa Taxpayers

(Priority: Pensions)



- While a reasonable distribution between employer and employee is important, the state's Municipal Fire and Police Retirement System of Iowa (MFPRSI or 411 Program) policy has a much more costly impact to cities covered by this pension system.
- Increased state contributions to the MFPRSI system will be sought.
- Any new benefits or expansion of existing benefits will be opposed.

MFPRSI Snapshot

- **Established by 1990 legislation, started in 1992**
- **Consolidated local fire and police retirement systems into one system**
- **Provides retirement benefits for fire and police in 49 member cities**

MFPRSI Snapshot

- **Payment of pension benefits for**
 - Service retirement
 - Ordinary and accidental disability retirement
 - Spouse and dependent benefits to survivors of deceased members
- **Defined benefit plan**



Member Cities

Ames
Ankeny
Bettendorf
Boone
Burlington
Camanche
Carroll
Cedar Falls
Cedar Rapids
Centerville
Charles City
Clinton
Clive
Council Bluffs
Creston

Davenport
Decorah
Des Moines
DeWitt
Dubuque
Estherville
Evansdale
Fairfield
Fort Dodge
Fort Madison
Grinnell
Indianola
Iowa City
Keokuk
Knoxville

LeMars
Maquoketa
Marion
Marshalltown
Mason City
Muscatine
Newton
Oelwein
Oskaloosa
Ottumwa
Pella
Sioux City
Spencer
Storm Lake
Urbandale

Waterloo
Waverly
Webster City
West Des Moines

Sources of Contributions

- **State General Fund Appropriation**
- **Member (Employee) Contributions**
- **Cities (Employer) Contributions**

State Appropriation

- Original commitment: 3.79%
- Later, switch to dollar amount
- FY 05: General Fund Appropriation of \$2,745,784 (1.40%)
- State funding is declining:
 - 2001: 1.77%
 - 2002: 1.63%
 - 2003: 1.56%
 - 2004: 1.47%

Member Contributions

- **Iowa Code Section 411.8 sets employee contributions at 9.35% of earnable compensation**
- **Unchanged since 1995**
- **New benefits may increase employee contribution, but no more than 11.3% of earnable compensation**
- **Then 60/40 split between employer and employee**

City Contributions

- Iowa Code Section 411.8 establishes a minimum contribution rate of 17% (even if the actuarially appropriate rate is less)
- Over-funded system in past years
- Current rate: 28.21% (\$52,729,971)
- Next year: 27.75% (\$54,429,700)

Contribution Rate Comparisons



	<u>Employer</u>	<u>Employee</u>
MFPRSI	27.75%	9.35%
Sheriffs/Deputies	8.2 %	8.2%
Other Pub. Safety	9.23%	6.16%
Regular IPERS	5.75%	3.7%

MFPRSI Costs to Member Cities



- Allocation of contributions between contributors:
- 60/40?
- 50/50?

- **72/25**

* Does not reflect state contribution, therefore total is less than 100%

MFPRSI Costs to Member Cities



Contribution	2001	2002	2003	2004	2005
State	1.77%	1.63%	1.56%	1.47%	1.4%
Members	9.35%	9.35%	9.35%	9.35%	9.35%
Cities	28.12%	20.24%	24.92%	28.21%	27.18%*
Total	28.12%	31.36%	35.83%	39.03%	37.93%

*Estimated rate before MFPRSI Board Adjustment. New rate is 27.75%

Source: July 1, 2005 Actuarial Valuation

MFPRSI Costs to Member Cities



17.00% for 1/1/92 - 6/30/93 *

19.66% for 7/1/93 - 6/30/94

18.71% for 7/1/94 - 6/30/95

17.66% for 7/1/95 - 6/30/96

17.00% for 7/1/96 - 6/30/97*

17.00% for 7/1/97 - 6/30/98*

17.00% for 7/1/98 - 6/30/99*

17.00% for 7/1/99 - 6/30/00*

17.00% for 7/1/00 – 6/30/01*

17.00% for 7/1/01 - 6/30/02*

17.00% for 7/1/02 – 6/30/03*

20.48% for 7/1/03 – 6/30/04

24.92% for 7/1/04 – 6/30/05

28.21% for 7/1/05 – 6/30/06

***Rate certified at statutory minimum of 17.00%**

***Source: MFPRSI Annual Report for
the Year Ended June 30, 2004***

MFPRSI Costs to Member Cities

2002	\$ 35,459,256
2003	\$ 44,953,249
2004	\$ 52,729,971
2005	\$ 54,429,700

Source: MFPRSI Actuarial Valuation Reports: 7/1/04 and 7/1/05

Protect Iowa Taxpayers

- MFPRSI costs payable from city general fund
- Also payable from trust and agency levy
- Trust and agency levy increase attributable to MFPRSI costs,
FY 1996 to FY 2005:

225.49%

\$14,562,979

Source: Department of Management

Solutions

- **Support legislation that strengthens actuarial soundness and fairly allocates the contribution rates among participating parties**
- **Oppose any expansion of benefits**
- **Other changes**

Strengthen actuarial soundness and fairly allocate contribution rates



- **Cities should not be the only entity to bear the costs of a poor economy**
- **Unlimited increases in contribution rates reduce the ability of cities to hire personnel and provide necessary services, or increase property taxes**
- **IPERS BAC recommendations provide discussion framework for a more equitable distribution of contribution liability**

Strengthen actuarial soundness and fairly allocate contribution rates



- **Cap City contribution rate**
- **Remove 17% floor on city contribution rate**
- **Renew state commitment to fund MFPRSI**

Oppose any expansion of benefits



- **Deferred Retirement Option Program (DROP)**
 - Actuarial reviews support the League contention that this will increase costs.
- **Overtime**
- **2005 Carryover Legislation**

Deferred Retirement Option Program (DROP)



- To date, each proposed plan design submitted to MFPRSI has resulted in increased cost to cities
- Actuarial studies of other DROP systems show it is impossible to accurately predict whether DROP will encourage early retirement, etc.
- League member cities extremely concerned
- Members should bear any cost increase

Overtime

- **A request to analyze inclusion of overtime in earnable compensation**
- **Proceed with caution**
 - Increased costs
 - Impact upon availability of services for special events
 - Inconsistency in application among member cities

2005 Carryover Legislation

- Expansion of \$100,000 death benefit to adult, non-dependent children (SF 22)
- Elimination of subrogation rights for medical expenses (SF 127/HF 257)

Other solutions

- Heart/lung presumption
- Interest charged on transition liabilities

Rebuttable Heart/Lung Presumption



- Iowa Code Section 411.6 provides that heart or lung disease is presumed to be contracted while on active duty, resulting in accidental (rather than ordinary) disability benefits.
- Iowa Supreme Court cases conflict as to whether the presumption can be rebutted by evidence that the heart or lung disease was caused by something other than exposure or injury while on duty
- In the last 10 years, not one heart or lung disease case has been found to be an ordinary disability

Rebuttable presumption (cont.)

- If presumption is rebuttable, the city bears the burden to prove that the disease was not contracted while on duty
- Must present expert medical testimony to overcome presumption
- Supreme Court standard of review gives great deference to board decisions (supported by substantial evidence)

Interest Charged on Transition Liabilities



- Section 411.38 requires MFPRSI to charge interest on transition liabilities (7.5%)
- Recent transition liability discovered: \$12,000, dating back to 1978 (25 years)
- With interest, cities bill was \$42,000+
- Statute does not allow waiver of interest

Transition liability (cont)

- **Fix: provide that effective January 1, 2006, interest will not be collected on any transition liabilities identified after that date**



Member Cities

Ames
Ankeny
Bettendorf
Boone
Burlington
Camanche
Carroll
Cedar Falls
Cedar Rapids
Centerville
Charles City
Clinton
Clive
Council Bluffs
Creston

Davenport
Decorah
Des Moines
DeWitt
Dubuque
Estherville
Evansdale
Fairfield
Fort Dodge
Fort Madison
Grinnell
Indianola
Iowa City
Keokuk
Knoxville

LeMars
Maquoketa
Marion
Marshalltown
Mason City
Muscatine
Newton
Oelwein
Oskaloosa
Ottumwa
Pella
Sioux City
Spencer
Storm Lake
Urbandale

Waterloo
Waverly
Webster City
West Des Moines